



*Empowering Rural Africa*



# The Status of Agricultural Financing in Africa.

A presentation by Mr. Saleh Usman Gashua  
Secretary General, AFRACA

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# Presentation Outline

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Empowering Rural Africa

- About African Rural and Agricultural Credit Association (AFRACA)
- African Agriculture in perspective
- Africa's Food Import Bill: A Growing Concern
- The Role of Finance in Agriculture & Value Chain Finance
- Finance vs Unstructured Value Chains
- Agricultural Lending: A Risk-based Approach
- Key Enablers in Agricultural Finance
- An overview of the Policy scene in RAF
- An overview of Policy Responses in RAF
- Case Study: The Nigeria Incentive Based Risk-Sharing System for Agricultural Lending (NIRSAL)
- Case Study: Nigeria Rice Anchor Borrowers' Programme: An initiative of the Central Bank of Nigeria
- The Growing Role of ICT in Agricultural Finance
- Key Policy Implications & Recommendations

# About AFRACA

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The African Rural and Agricultural Credit Association (AFRACA) is an Africa-wide network of financial and non-financial institutions that are involved in promoting rural and agricultural financial inclusion targeting the bottom of the pyramid communities.

The FAO initiated the concept of Regional Agricultural Credit Associations (RACAs) in Accra, Ghana in **1973-Led to Establishment of AFRACA 1977**

Registered in Kenya in 1981 under the NGO's Coordination Act  
Membership-Based Association with over 110 members in 32 African Countries  
with secretariat based in Nairobi, Kenya

# About AFRACA

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The foundation and working principles of the AFRACA network is to create an integrated and coordinated approach to agricultural financing by improving the policy environment and entrenching professionalism in financial service delivery to assist farmers to unleash their potential for development as well as to improve their well-being.

For over 40 years, AFRACA has been campaigning for dialogue and exchange of experience in rural and agricultural finance in order to promote and sustain growth and development in rural areas.

## **Vision**

AFRACA's vision is 'a rural Africa where people have access to sustainable financial services for economic development'

## **Mission**

AFRACA's mission is, 'to improve rural finance environment through promotion of appropriate policy framework and to support member institutions provide sustainable quality financial services to the rural population'

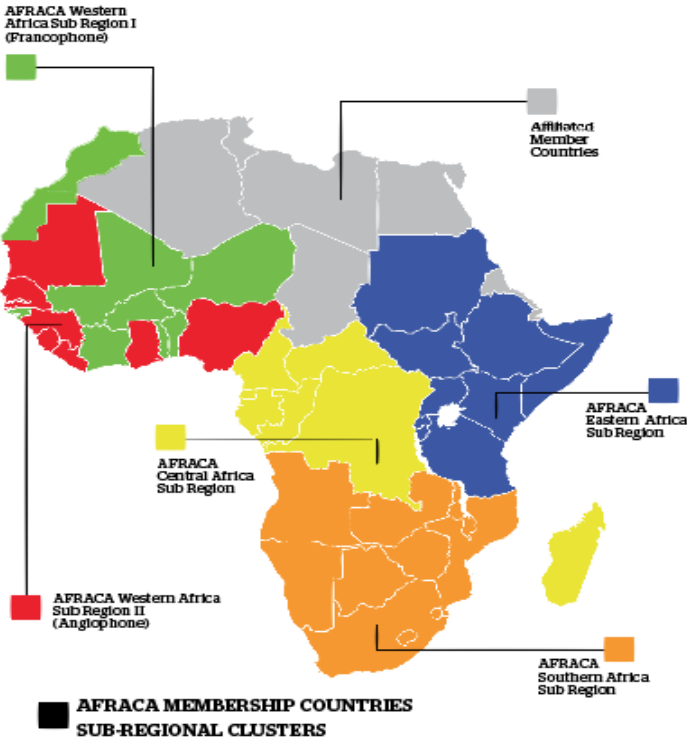
# AFRACA Membership



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## Membership

AFRACA is a one-stop heterogeneous network of over 110 members, spread across the African Continent.



\* The map shows an overview of the sub regional clusters of AFRACA membership base.



Membership is open and consists but not limited to the following categories of institutions:

AFRACA MEMBERSHIP COUNTRIES  
SUB-REGIONAL CLUSTERS

\* Please note that the above map shows an overview of the sub regional clusters for AFRACA membership.



# Strategic Focus Areas

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Policy Development and Advocacy aimed at integration, coordination and strengthening rural and agricultural finance policies and operations.



Capacity Building: Demand driven bottom-up structured programmes that include peer to peer learning, exchange programmes, workshops/ conferences, specialize trainings aimed at professionalizing agricultural lending thus improving access to financial services to the rural and agricultural sector.

# Strategic Focus Areas

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**Knowledge Management and Information Sharing Services** aimed at reaching AFRACA member institutions and the wider public with value adding rural/agricultural finance information.



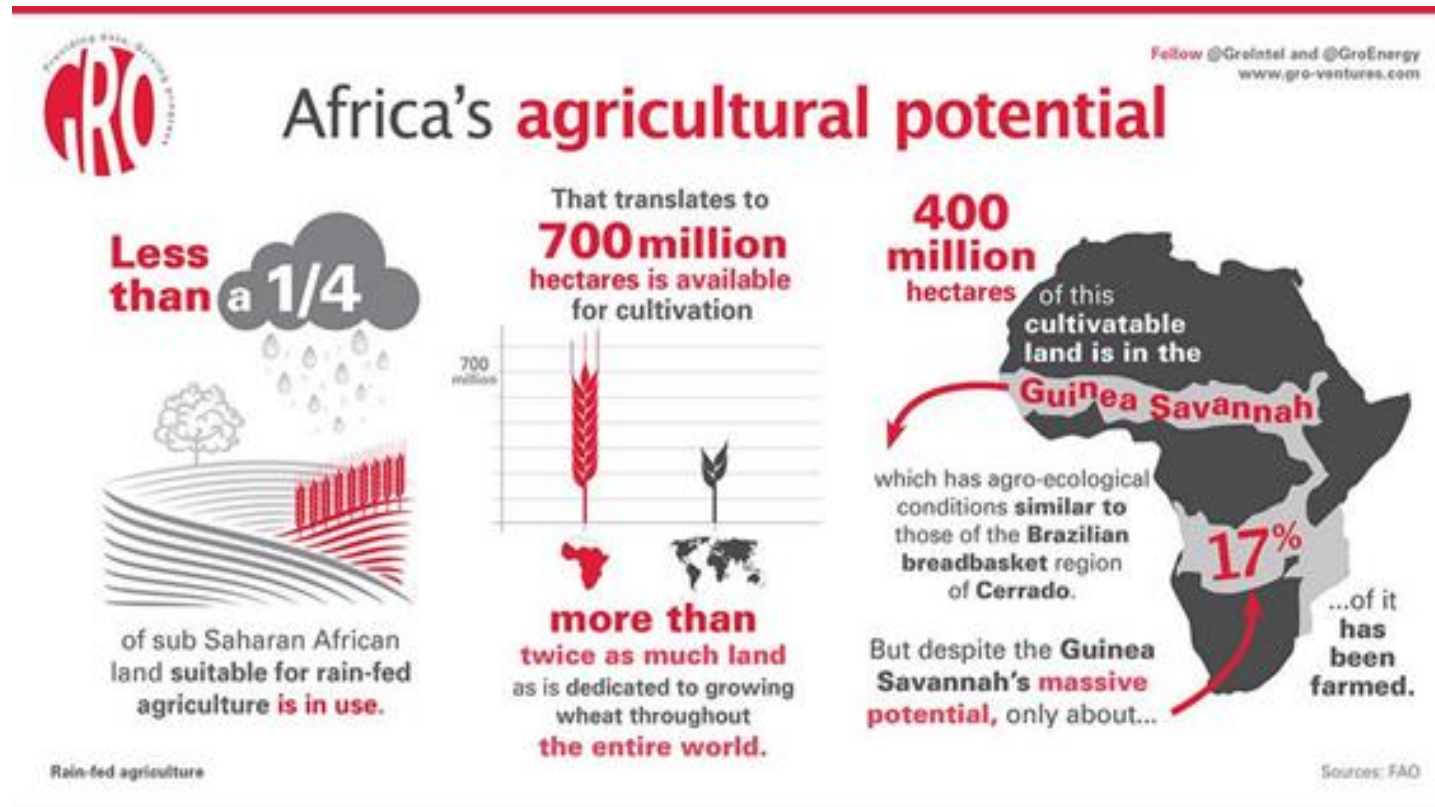
**Partnership & Networking Programmes** implemented with regional and international organizations for greater synergy and outreach in improving financial inclusion in Africa.



**Creating Opportunities for Value Chain Finance in Africa** by continuing to interest both private and public institutions to support its members in creating business opportunities among partners and member institutions, provide Technical Assistance (TA) to members, B2B Sessions-knowledge-sharing studies, concessionary loans and risk-sharing opportunities e.g. guarantee facilities for agri-finance.

# African Agriculture in perspective

- Agriculture is the largest industry in sub Saharan Africa, contributing more than 40% of GDP up to 65% of employment and 75% of domestic trade. Despite its contribution, commensurate economic impacts are extremely low as challenges confronting the sector are many.

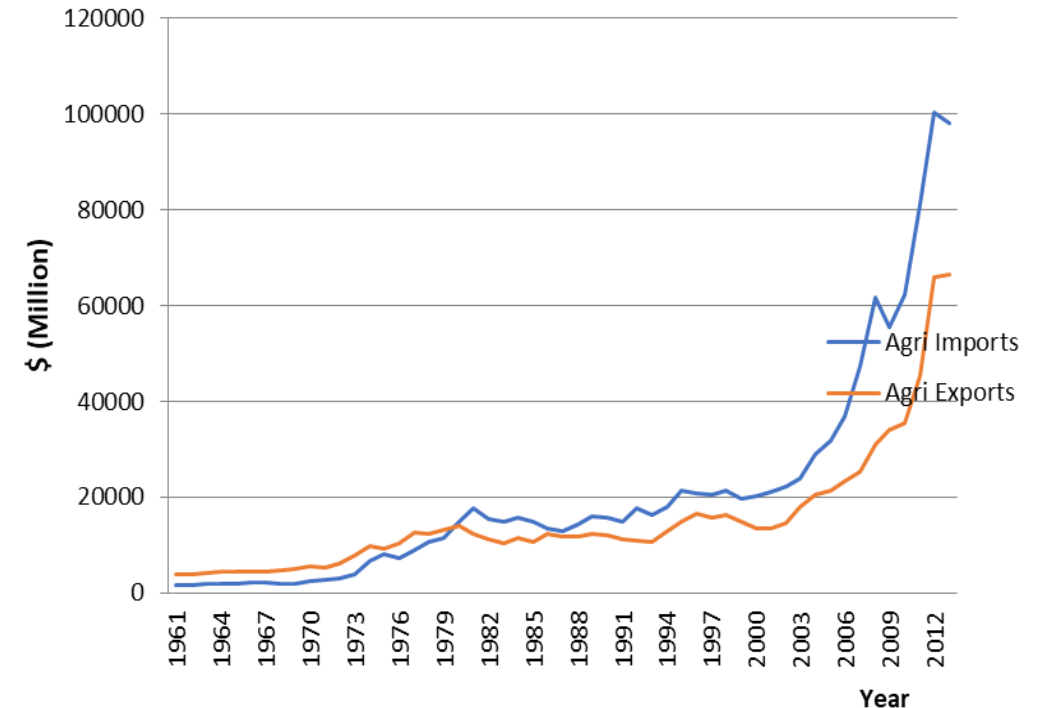




# Africa's Food Import Bill: A Growing Concern

- Sub-Saharan Africa is still heavily dependent on food imports even despite being a major food producer.
- Africa's largest economies dominate food imports, reflecting their large populations, high urbanization rates and rising purchasing power. It is estimated that the region imported US\$234bn of food in 2002-12, mostly cereals, fish, sugar and dairy products (Ecobank 2014).
- Africa remains a continent at risk in terms of net trade position.
- The Share of Africa in World agricultural exports has dropped steadily from 10% in the 1970's to some 3.7% in 2013

**Fig: Africa's Agricultural Import and Export Trends**

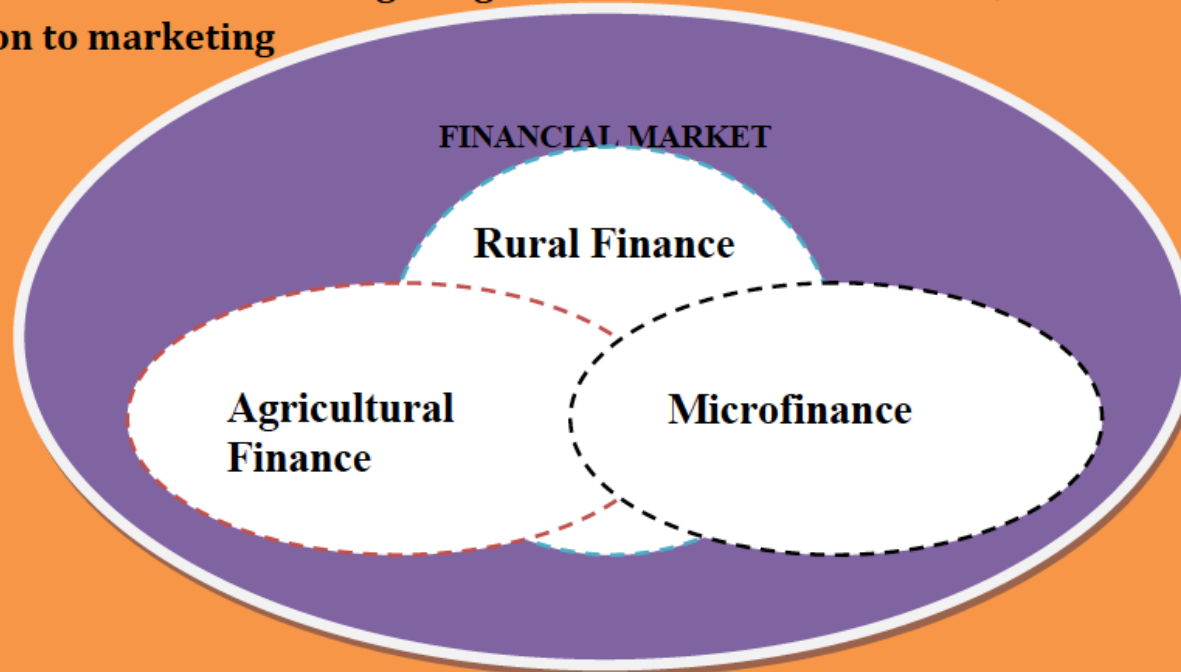


Source: UNECA calculations based on UNCTAD statistics

# The Role of Finance in Agriculture & Value Chain Finance

## The Financial Market

- **Micro finance; Financial services for poor and low-income people**
- **Rural Finance: Financial services used in rural areas by people of all income levels**
- **Agricultural Finance: Financing of Agriculture - related activities, from production to marketing**



# The Role of Finance in Agriculture & Value Chain Finance

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- Various solutions exist that can address the current trend which exposes one of the major issues with African Agriculture i.e. **Access to Markets**.
- Finance is just but a catalyst in the drive to open up agricultural Markets
- The Value Chain Finance Approach has been widely adopted by majority of FSP's in Africa.
- Commonly most of the VCF models tend to target specific value chains hence benefitting a limited range of crops and farmers.
- Tight Value Chains characterized by 'end to end models' are generally easy entry points for Financial Service Providers, with the presence of off-takers and other strong value chain actors
- Studies by CGAP estimate that only 35 million of the worlds' estimated 500 million smallholder farmers participate in tight value chains.
- In Africa, 90% of companies are SMEs but only 10% have access to any funding.
- The uptake of VCF is an encouraging trend since it shows an increased appetite from FSP's to understand value chain structures prior to tailoring appropriate services for specific target groups.



Finance versus Unstructured Value Chains

## The Current Mismatch?

Who is going to 'Fix' our value chains?

Loose Value Chains represent majority of the food secure crops

# Agricultural Lending: A Risk-based Approach

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- Production Risk
- Price or Market Risk
- Financial and Credit Risk
- Institutional Risk
- Technology Risk
- Personal risk

## Current Trend:

Given the risks, most FSP's still rely heavily on collateral-based lending despite the availability of innovative financial instruments and tools that can stimulate lending to the sector. Most of which have been applied effectively in tight/ well-structured value chains. Broken or loose value chains e.g. maize remain a challenge and make it difficult to lend without collateral due to a myriad of risks.

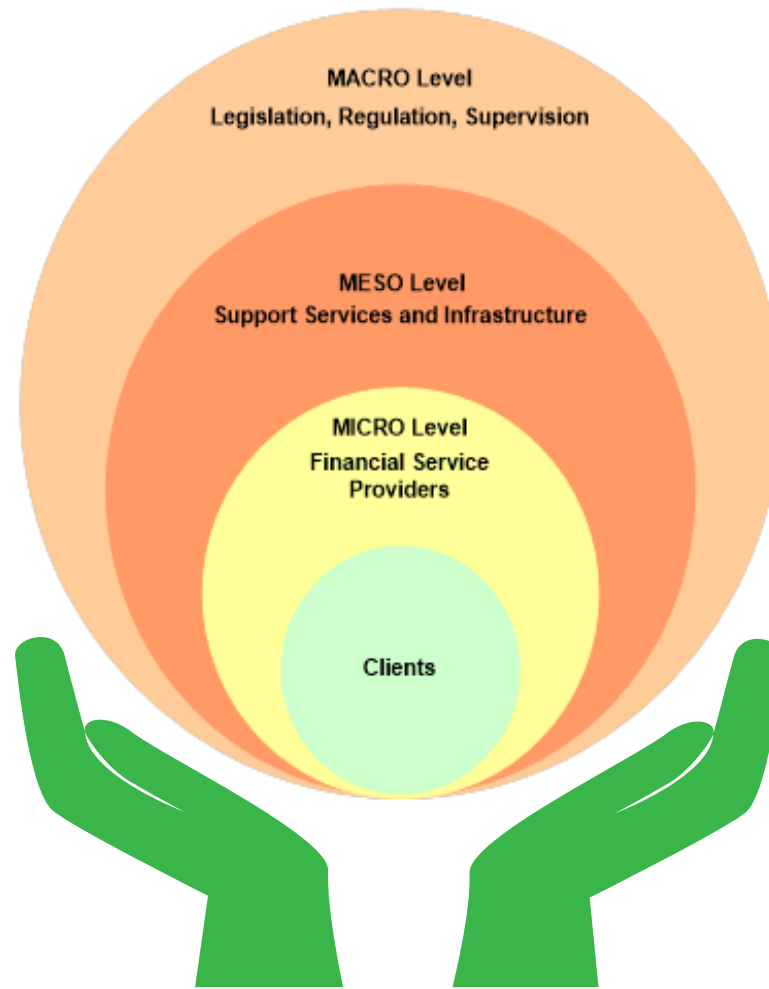
# Key Enablers in Agricultural Finance

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- Infrastructure Development
- Policy and Regulatory Framework
- Public Private Partnerships
- Awareness Generation
- Accuracy of Services and Transparency
- Integrated Value Chains

# Key Enablers in Agricultural Finance

Despite new interventions, new policies and financial innovations from both the private and public sector.....



We find ourselves in a new era that requires more collaboration across the different levels of support.

## An overview of the policy scene in RAF

- Regional and Global commitments continue to shape Agricultural Finance Policy in Africa.
- Worth mentioning are the Maputo and Malabo Declarations advocating for more public sector funding.

### Share of Public Agriculture Spending in African Countries under CAADP Implementation

<b>Achieved or Exceeded 10% Agriculture Budget Share Target (2003-2014)</b>	
Malawi	14.5
Niger	13.5
Ethiopia	13.3
Zimbabwe	10.3
Mali	10.0
Burkina Faso	10.0

Source: ReSAKSS based on IFPRI (2015), World Bank (2016), and National sources



# An overview of Policy Responses in RAF

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## 1. Public-Private Sector Investment Strategies in Rural and Agricultural Finance

### a) Risk-Sharing and Financing Mechanisms in Agricultural Lending

Risk-sharing financing arrangements are viable tools for leveraging public resources by encouraging private sector investments that ultimately seek to de-risk agricultural value chains. To date, Nigeria's Incentive-based Risk Sharing System for Agricultural Lending *NIRSAL* remains one of the most highly referenced success stories cited under this arrangement. Other countries such as Ghana have also adopted similar interventions

### b) Blended Finance

A mix of funds (grant funding and other private sector sources of funds) deployed for investment in a particular sector. Blended Finance can take the form of a variety of products and structures including risk sharing products, lower interest rates, longer tenors, subordinated rank in loans, or lower returns for equity investments'. Slow uptake of Blended Finance Models. AFRACA and CTA have been active in promoting the Model across Africa.

*Case Study: The Nigeria Incentive Based Risk-Sharing System for  
Agricultural Lending (NIRSAL)*

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# The Nigeria Incentive Based Risk Sharing System for Agricultural Lending (NIRSAL)

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The Nigeria Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL) was launched in 2011 and incorporated in 2013 by the Central Bank of Nigeria (CBN) as a dynamic, holistic USD500 Million public-private initiative to define, measure, price and share agribusiness related credit risk. NIRSAL is designed with the objective of enabling the flow of affordable financing to all players along entire agricultural value chains. It aims to reduce the risks of financing institutions while granting agricultural loans by building the capacities of both banks and value chain actors on good practices in agricultural financing, loans utilization and repayment. NIRSAL operated as a project implementation office in Development Finance Department of the Central Bank of Nigeria until the appointment of its executive management team by the CBN on 23rd December 2015. NIRSAL seeks to address the causes of low funding levels in the agriculture sector, including lack of understanding of the sector, perceived high risks, complex credit assessment processes/procedures, and high transaction costs. <https://www.nirsal.com>

# An overview of Policy Responses in RAF (Continued)

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## 2. Policy and Institutional Approaches to Agricultural Risk Management (ARM)

- Investing on ARM at farm-level is now viewed as a much better cost-effective option than traditional large scale humanitarian aid which usually require mobilization of large amounts of resources from the international community.
- Current strategies are now targeting Financiers as potential developers or collaborators of risk management tools. In Warehouse Receipt Systems for instance, inventory credit provided by financial institutions can enhance efficiency of a WRS and help WRS's farmers overcome the risk of low prices. Micro-insurance products when bundled with credit can prove useful tools for managing climatic risks.

# An overview of Policy Responses in RAF (Continued)

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## 2. Policy and Institutional Approaches to Agricultural Risk Management (ARM)

A number of Partners and Stakeholders have collaborated to convene dedicated forums addressing ARM or ARM tools.

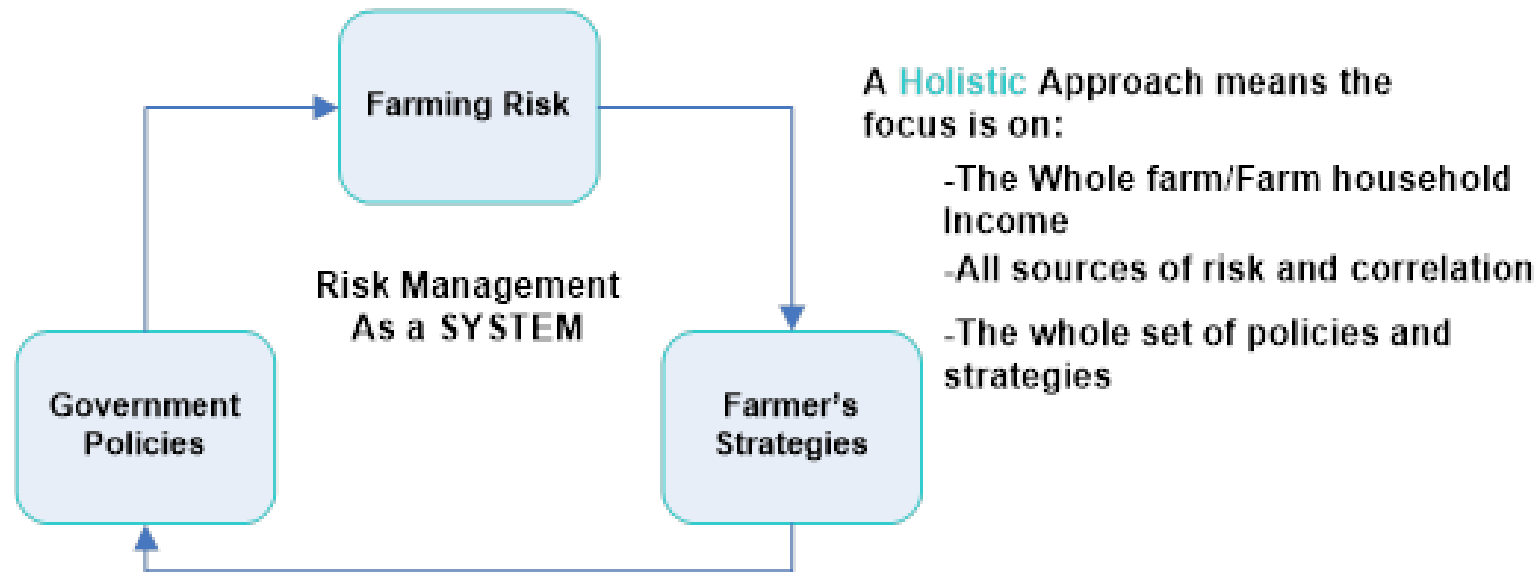
Key Examples include:

- *The Policy Forum on Integrating Agriculture and Food Risk Management and Innovative Financial Services in Ethiopia, UNECA, Addis Ababa, Ethiopia, November, 11-13, 2014.* The Multi-stakeholder meeting spearheaded by NEPAD and PARM brought together other partners such as IFAD, ATA (Ethiopia) FAO and AFRACA together with select member institutions. The Forum emphasized on the integration of food security and vulnerability issues, including risk management tools into agricultural investment plans under the CAADP framework.
- IFAD's-PARM (Platform for Agricultural Risk Management), MFW4A and AFRACA have also convened policy forums focusing on agricultural insurance (Tanzania and Nigeria)

# An overview of Policy Responses in RAF (Continued)

## 2. Policy and Institutional Approaches to Agricultural Risk Management (ARM)

### Interaction of The Holistic Approach to ARM



Source: Platform for Agricultural Risk Management (PARM)

To date, PARM has been one of the most active Partners. Working with select Governments to improve the ARM environment.

# An overview of Policy Responses in RAF (Cont...)

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## 2. Growing Role of Central Banks in RAF

- It is increasingly evident that Central Bank Institutions in developing economies are being called upon to move beyond their traditional roles of ‘checking’ monetary policies and gradually taking up developmental mandates.
- This current trend has resulted in cases where Central Banks have been transformed from ‘financial regulators’ to ‘providers of credit’- directly intervening to facilitate access to credit for smallholder farmers
- The Central Bank of Nigeria for instance, recently launched the ‘*Anchor Borrowers’ Programme*’ to address financial constraints facing rice farmers in Nigeria. *The Agricultural Credit Facility, ACF*, is another recent intervention by the Bank of Uganda aiming to incentivise financial institutions with patient capital to encourage mechanization in the Agricultural sector in Uganda.

*Case Study: Nigeria Rice Anchor Borrowers' Programme: An initiative of the Central Bank of Nigeria*

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## *The Rice Anchors' Borrowers' Programme in Nigeria*

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The Anchors Borrowers Programme (ABP) launched by the Central Bank of Nigeria aims at creating economic linkages between over 600,000 smallholder farmers and reputable large-scale processors with a view to increasing agricultural output and significantly improving capacity utilization of integrated mills. Under the ABP, farmers will be grouped into cooperatives, have agri-business training and adopted by an ***'Anchor' (Certified Integrated Rice Millers)***. The farmers will also be required to have individual loan accounts with banks. Each loan disbursement to farmers is for a six months cycle, and largely in-kind, with a maximum single obligor of US\$5,000. Accordingly, US\$100m has been set aside for the Rice Anchor Programme. In order to operationalize the Program, Central Bank of Nigeria will provide Wholesale Finance to commercial banks at 2%, and the commercial banks will on-lend to MSMEs at 9% per annum for a maximum tenor of five years.

# The Growing Role of ICT in Agricultural Finance

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- Enable greater outreach including to rural landscape
- Help monitor and assess the quality of financial services delivered to rural clients
- Promote transparency and accountability as all transactions are conducted electronically
- Improve risk management and authentication
- Reduce transaction costs and increase operational efficiency
- Disseminate relevant information to both farmers as well as financial institutions and conduct information gathering, monitoring, and evaluation on a real-time basis

# ICT In Agricultural Finance: A success story in need of 'Panel Beating'

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- The current landscape suggests a growing influence of FinTech's and AgTechs most of which are led by **Youthful teams**.
- Most FinTech's serve the affluent, tech-savvy customers in Tier-1 geographies, leaving over 80% of the addressable **low and middle-income (LMI)** customer market untapped.
- Ag-Techs have come to the fold to address one of the LMI gaps left by FinTech's, particularly in the Agricultural sector
- Unfortunately, most Ag-Techs are undercapitalized and tend to bundle services with core innovations to expand the value proposition and sustain their innovations.
- Once Ag-Techs consider credit as part of their value propositions they tend to look at Financial Institutions as 'scale-up' vehicles, often very late during development. Thus failing to scale up innovations

# Key Policy Implications & Recommendations

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- The policy environment in rural and agricultural finance is improving -but there is strong need to translate policy developments into practice. Innovative modalities of spurring private sector investment is still critical in unlocking Africa's agricultural potential. Public-private partnerships are central to this cause. Risk-sharing Financing Mechanisms and 'Blending' finance are viable options for unlocking private sector investment.
- Inclusive Financing Models in Agriculture are scaled up and or implemented faster where the policy environment is favourable and where farmers are better organized
- Financial Regulatory Authorities (Central Banks) need to understand nature of the risk mitigation tools to inform regulatory changes. AFRACA can develop capacity building programmes on ARM tools to expand awareness of Policy Makers

# Key Policy Implications & Recommendations

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- Research is key in the assessment of the Fintech and the AgTech Landscape in Africa. This will identify viable value chains for specific interventions and hopefully have a catalytic effect on other value chains.
- There is need to enhance financial support systems at *meso-level* e.g. credit Information sharing systems and collateral registries to support agricultural lending. This can stem over-reliance of collateral based lending models by financial markets.
- Direct Subsidies are now ‘old fashioned’ and seem to perpetuate the issue of Moral hazard among Agricultural Communities. Governments (public sector) should focus more on offering SMART Subsidies

*Join us in the campaign to empower African rural and agricultural communities,  
Join us to revolutionize finance for the agricultural value chains in the Continent.*

## THANK YOU

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Presented by Mr. Saleh Gashua  
Secretary General  
AFRACA

**For further details, please contact:**  
AFRACA Secretariat, Kenya School of Monetary Studies (KSMS)  
Off Thika Super Highway, Noordin Road, P.O. Box 41378, 00100, Nairobi, Kenya  
Telephone: 254 20 2717911/2715991; +254 717 698394  
Email: [afraca@africaonline.co.ke](mailto:afraca@africaonline.co.ke)  
Website: [www.afraca.org](http://www.afraca.org)